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1985 LOUISIANA ECONOMIC OUTLOOK

DIVISION OF BUSINESS RESEARCH
COLLEGE OF BUSINESS ADMINISTRATION
LOUISIANA STATE UNIVERSITY
BATON ROUGE, LOUISIANA 70803

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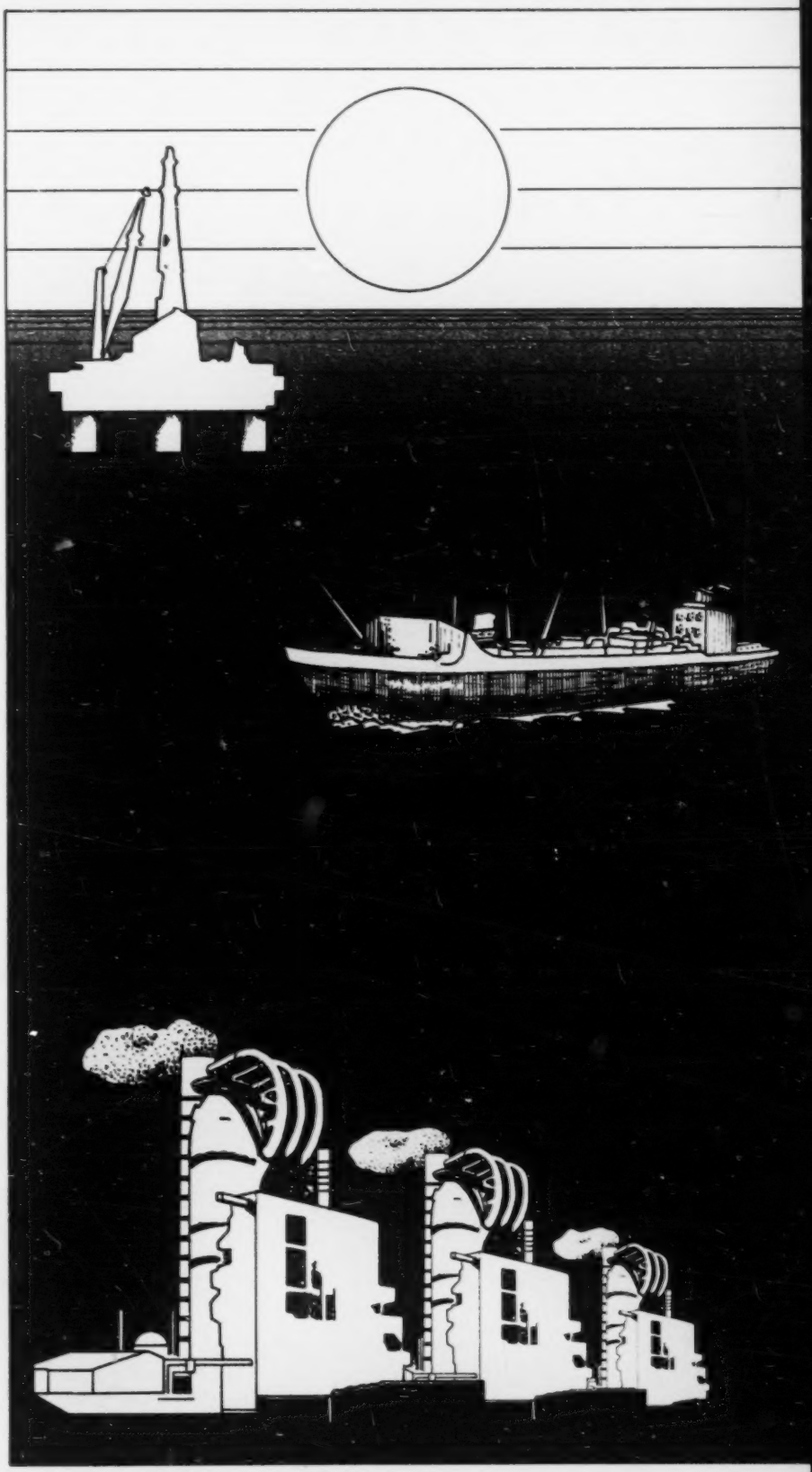

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JAMES B. HENRY, Dean
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Acknowledgments

The Division of Business Research thanks the following persons for their valuable contributions: Bob Clay, Richard Karesh, and David Camus for assembling much of the data; Nawal Farah for graphics; and Nora Fierro for word processing.

The analyses and forecasts contained in the *1985 Louisiana Economic Outlook* are those of the researchers and do not necessarily reflect the opinions of any officials of Louisiana State University nor the sponsoring organizations that provided financial support for the project.

1985 LOUISIANA ECONOMIC OUTLOOK

By
A.M.M. Jamal
James A. Richardson
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FOREWORD

James B. Henry, Dean
College of Business Administration
Louisiana State University

We are pleased to provide decision makers throughout Louisiana with the *1985 Louisiana Economic Outlook*. Our purpose in publishing this outlook is to provide our state's business leaders, government officials, and private citizens with information regarding Louisiana's past economic development and the likely course of events for the next two years. We hope that by providing historical data and our projections for 1986 and 1987, we can help you make well-informed decisions about our state's economic future.

The *1985 Louisiana Economic Outlook* is the fourth in a series of forecasts generated by the Louisiana Econometric Model (LEM). An econometric model is a description of an economy with a series of interacting mathematical equations. LEM was actually constructed in two different stages under support provided by the Louisiana Board of Regents in 1981 and 1983. Since that time the maintenance and operation of LEM has been supported by generous grants from these companies:

- **Chevron Oil**
- **Gulf States Utilities**
- **Louisiana Power and Light**
- **New Orleans Public Service**
- **Southwestern Electric Power Company**

These companies have shown their interest and concern in Louisiana's economy. We feel, as they do, that the best way to make the critical decisions now facing us is to be as informed as possible. We hope that the *1985 Louisiana Economic Outlook* will help you make your decisions.

1985 LOUISIANA ECONOMIC OUTLOOK EXECUTIVE SUMMARY

Louisiana highlights are summarized in Table E.S. 1, including projections for Louisiana and the national economy for 1986 and 1987. What occurs in Louisiana depends to a large extent on the future behavior of major national economic variables. The expected behavior of selected national variables is presented, with these forecasts being generated by the Wharton Econometric Model of the U.S. economy. The only exception is the price of oil which represents our best estimates.

The behavior of three of these national variables should lend strength to the state's economy in 1986 and 1987. A faster growing national economy, modest inflation rates, and a drop in the value of the dollar will act to bolster the demand for Louisiana products ranging from chemicals to food products. On the other hand, the state's economy is heavily dependent on the production of oil and natural gas. We expect another round of oil price cuts — on the order of $2 per barrel — which will reduce employment in the extraction industry. This reduction will have repercussions throughout the economy.

LEM is projecting that the combination of all these factors will result in very modest growth in the state's economy over the next two years. Louisiana's wage and salary employment will be up only 0.7 percent in 1986 and will show only slight improvement, up to a 1.5 percent growth rate in 1987. LEM is projecting that by 1987 the employment level will still be 34,600 jobs *below* the peak achieved in 1981. This modest employment growth, combined with the anticipated rise in the inflation rate, will result in personal income growth of 5.6 percent and 6.7 percent in 1986 and 1987, respectively.

Deposits in banks will grow slightly more rapidly than Louisiana personal income. Thrift deposits are projected to continue to grow faster than bank deposits as the former continue to pay somewhat higher rates than banks.

Large price hikes for electricity this year have caused residential consumption to actually decline, and price increases expected to occur next year, as two nuclear plants begin operating, will keep consumption virtually flat. No major price increases are expected for natural gas; indeed, gas prices are likely to fall in real terms. Thus, LEM is projecting a continuation in recent growth rates in residential natural gas consumption.

On the production side, expected price declines for oil and natural gas will continue to reduce drilling activity in Louisiana. As a result, production of these two resources is projected to decline over the next two years. Declining production will lead to worrisome fiscal difficulties for state government, which relies heavily on severance taxes, royalties, rentals, and bonuses for its revenues.

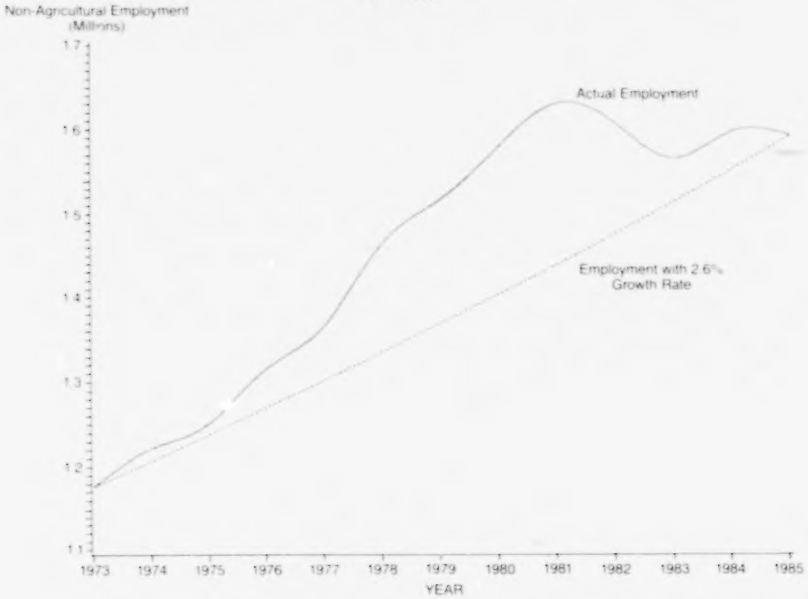
Finally, LEM projections of employment growth for seven of the state's metropolitan areas are also illustrated. Generally speaking, the metropolitan areas are projected to mirror the aggregate state employment behavior in 1986 and 1987. Employment growth is expected to be very weak across the board in 1986 with a very mild recovery forecast for 1987. No region jumps ahead of the pack. LSU

TABLE E.S. 1
Louisiana Highlights

Economic Indicators	1985	1986	1987
National Variables:			
Real GNP Growth	2.4%	**3.1%**	**3.5%**
Inflation Rate	3.6%	**3.7%**	**4.4%**
Price of Oil	$27.00	**$25.00**	**$25.00**
Exchange Value of Dollar	6.6%	**–7.9%**	**–4.4%**
Louisiana Forecasts:			
Wage and Salary Employment:			
Level (000s)	1592.3	**1603.9**	**1628.3**
Growth Rate	–0.3%	**0.7%**	**1.5%**
Personal Income Growth Rate	4.2%	**5.6%**	**6.7%**
Per Capita Income Level	$11,215	**$11,757**	**$12,425**
Growth Rates of Selected Variables:			
Bank Deposits	6.8%	**7.3%**	**7.9%**
Thrift Deposits	10.9%	**10.6%**	**10.4%**
Electricity Consumption:			
Residential	–3.6%	**0.1%**	**2.8%**
Natural Gas Consumption:			
Residential	5.0%	**5.3%**	**5.1%**
Natural Gas Production	–4.3%	**–2.1%**	**–2.3%**
Oil Production	–1.1%	**–4.3%**	**–1.7%**
Metropolitan Areas:			
Wage and Salary Employment:			
Growth Rates			
Alexandria	2.0%	**2.0%**	**2.2%**
Baton Rouge	2.8%	**0.2%**	**2.3%**
Lafayette	–2.2%	**0.4%**	**1.6%**
Lake Charles	–3.2%	**0.0%**	**1.5%**
Monroe	4.2%	**0.3%**	**1.8%**
New Orleans	–2.8%	**0.5%**	**1.1%**
Shreveport	0.6%	**0.3%**	**1.5%**

1985 LOUISIANA ECONOMIC OUTLOOK

FIGURE 1
LOUISIANA NON-AGRICULTURAL WAGE & SALARY EMPLOYMENT
1973-1985



The last 12 years have been tumultuous ones for the Louisiana economy. Figure 1 illustrates the movement in non-agricultural wage and salary employment in the state over the 1973-85 period. The period from 1973 to 1981 was one of remarkable growth. Louisiana's employment grew at an annual rate of 4.2 percent — almost double the 2.2 percent growth rate of national employment over the same time period. This economic boom was largely attributable to the fact that oil prices jumped from $3.90 to almost $35 per barrel during that period.

But 1981 was Louisiana's last prosperous year. Oil prices declined from $35 to $29 per barrel by 1983. As a result, employment in oil and gas extraction dropped by one-fourth and, through its multiplier impact on the economy, sent the state's non-agricultural wage and salary employment tumbling from a high of 1,630,500 workers in 1981 to 1,565,200 in 1983. Then there was a period of 18 months when oil prices remained stable at the $29 level. The state's economy was able to recover somewhat in 1984 with employment growing by 2 percent. However, a renewed round of price cuts by the OPEC cartel began in the fall of 1984. Oil prices are now in the $26-$27 range and, once again, drilling activity has been seriously arrested. The September 1985 employment figure of 1,592,300 workers is still almost 35,000 below the 1981 peak.

Clearly, the last four years have been difficult for business and government decision makers in Louisiana. Yet it is important to keep our present position in perspective. Note the dashed line in Figure 1. Had our employment grown along the dashed line, it would still represent a 2.6 percent annual growth rate — one half a percentage point *faster* than the national average of 2.1 percent. Oil and gas extraction employment — perhaps the most volatile over this 12-year period — is now at 75,300. This represents a 65 percent increase over the 47,300 employed in that industry in 1973. So, despite our poor performance recently, the state is still well above where it would have been had it grown at the average *national* growth rate during the same period.

Given this background, we proceed in the following sections to present the LEM forecasts for 1986 and 1987. The performance of the Louisiana economy depends in large measure on what is expected to happen to a number of *national* economic variables, such as the price of oil, interest rates, inflation, the exchange value of the dollar, and national growth rates. Our assumptions about the future behavior of these variables are discussed next in the section entitled "National Economic Trends." In "State Employment Trends" we begin to discuss the forecasts that are specific to Louisiana, beginning with employment by the major industrial sectors. "State Income and Population Trends" contains the LEM projection of state income and population growth. The data in this section are crucial in estimating expected performance in Louisiana's financial and energy sectors — the topic of the next two sections. Finally, the last section, "Metropolitan Areas," contains employment and income estimates for the major metropolitan statistical areas (MSAs) in Louisiana, a LEM breakdown that was begun for the first time last year.

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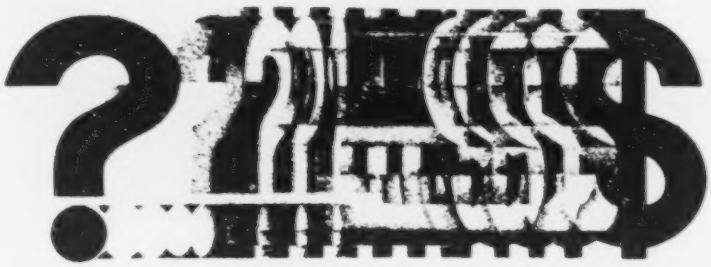
NATIONAL ECONOMIC TRENDS



In order to use LEM for forecasting, one must make some assumptions about the future course of key economic variables. Historically, LEM has been "driven" by the Wharton Econometric Model. The Wharton Model is a large econometric model of the entire U.S. economy, providing projections of the nation's economy since the 1950s.

The Wharton forecast for selected key economic variables for 1985 through 1987 is shown in Table 1. Real Gross National Product (GNP) is given in the first row. This is the basic economic measure of the well-being of the nation's economy. The Wharton staff projects that in 1986 and 1987 the national economy will continue to grow at rates slightly in excess of the 1985 performance. Not only do the Wharton forecasts exclude any recession from the immediate future, but also their longer run projections do not anticipate a recession in the United States until 1990.

Wharton's expectations regarding inflation in the economy are encouraging. They are projecting a slight increase in price levels between now and 1987, but there is no presumption of a return to the double digit rates that can be disruptive to our economy, as they were in the 1979-1981 period. These modest inflation rates will prevent large jumps in interest rates over the next two years as indicated in Table 1. Both short-term and long-term rates are projected to fall modestly in 1986. Short-term rates will then rise slightly in 1987 while long-term rates will remain stable.

Obviously, Louisiana's immediate economic future is closely tied to future oil price movements. The Wharton model projects that the official OPEC average oil price will drop marginally to $26 per barrel. The Louisiana wellhead price of oil is slightly lower than the OPEC price, and the futures' market for oil is indicating a U.S. price close to $25 per barrel by September 1986. This $2-a-barrel price drop from current levels is projected to take place in 1986 and to remain at that level through 1987. Note that given the inflation estimates in Table 1, the $25 a barrel estimates translate into a 14.5 percent drop in the *real* (i.e., inflation-adjusted) price of oil between 1985 and 1986. This will clearly act as a significant drag on the state's economy over the next two years.

Finally, Table 1 contains information that has been especially crucial to the state's chemical industry. Large losses in sales to foreign producers have occurred since the turn of the decade because of the very strong dollar. For example, a German consumer of U.S. fertilizer found that between 1980 and early 1985, the price of a pound of fertilizer rose over *80 percent* simply because the value of the dollar had risen so much in the foreign exchange market. Since the spring of this year, the dollar has weakened significantly. For example, at that time it took almost 3.2 marks to buy one dollar's worth of U.S. goods. On November 4, 1985, it took only 2.6 marks to buy the same dollar's worth of goods. Other things remaining the same, that constitutes a 19 percent drop in the price of U.S. goods from the German standpoint. According to Table 1, the Wharton forecasters expect a further weakening in the value of the dollar in international exchange markets over the next two years. This movement should improve the export market for the state's chemical industry.

The projected sustained national recovery, the modest inflation, stable interest rates, and the declining exchange rate will be positive factors contributing to the prosperity of the Louisiana economy. Over the next two years, falling oil prices will cast a shadow over the state's growth and prosperity.

TABLE 1
National Economic Trends

	1985	1986	1987
Real GNP[a]	2.4%	**3.1%**	**3.5%**
Inflation Rate[a]	3.6%	**3.7%**	**4.4%**
Treasury Bill Rate[a]	7.4%	**6.6%**	**7.5%**
AAA Utility Bond Rate[a]	11.5%	**10.4%**	**10.4%**
Price of Oil	$27.00	**$25.00**	**$25.00**
Exchange Value of Dollar[b]	6.6%	**–7.9%**	**–4.4%**

a - *Wharton Quarterly Model Outlook*, October 1985

b - *Long-Term Forecasts*, Wharton Econometric Forecasting Associates, Volume 3, Number 5, Table 6.00, September 1985

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STATE EMPLOYMENT TRENDS

What can we expect for the Louisiana economy over the next two years? Non-agricultural wage and salary employment behavior is shown in Table 2. Actual data for the years 1983, 1984, and September 1985 are given in the first three columns so the reader can get a sense of recent trends for each industry. Growth rates for each of the years have been calculated in the last four columns of Table 2.

The data show that 1984 — the year which came toward the end of 18 months of oil price stability — was a year of general employment growth. However, actual data for the first nine months of 1985 show the impact of the recent round of oil price cuts. Employment in 1985 is actually down slightly (-0.3 percent) from 1984. LEM forecasts for the next two years indicate that 1986 will be a very lackluster year with only a 0.7 percent increase in employment. The employment growth rate in 1987 is expected to almost double to 1.5 percent, but this will still be a year of weak employment growth. As a point of reference, the Wharton group expects U.S. civilian employment to grow at annual rates of 2.0 and 2.5 percent in 1986 and 1987, respectively.

What is the reason for this rather anemic projection for future state employment? One explanation can be found by examining one of the state's central industries — oil and gas extraction. Employment in oil and gas is projected to fall from the September 1985 level of 75,300 to 72,000 in 1986 and 1987. This decline is in response to the projected $2-per-barrel drop in oil prices.

When the oil and gas extraction industry is hurt, it then reduces its orders from *other* industries in the state causing a negative employment multiplier impact in those sectors. One such sector is "Transportation Except Railroad." This sector includes not only the trucking industries that do a great deal of business in the oil patch, but also the pipeline companies which are intimately connected to oil and gas extraction. Employment in this sector peaked at 84,200 in 1981 along with the oil and gas industry. LEM projections are for employment in this transportation sector to continue its decline through 1987 to a level of 64,300 in that year.

Another major sector that will be hurt by the depressed extraction industry will be "Transportation Equipment" under Durable Goods Manufacturing. Note that LEM is projecting employment in this sector to enjoy nice growth through 1987. Actually, given the firmly growing national economy described in Table 1, employment in this sector would have grown even faster. However, it is in this industry that the barges, ships, and drilling platforms are built to service the wetlands and offshore oil activities. Reduced drilling activity over the next two years will serve as a drag on this sector's normal employment growth.

A similar type of analysis fits "Contract Construction" employment. Because both the national and Louisiana economies are projected to perform better in 1986 and 1987 than in 1985, construction employment should enjoy some growth. Once again, this growth would normally be much higher, but there is a significant amount of construction activity associated with oil and gas extraction, and the poor performance of the latter will arrest construction employment growth somewhat. Construction employment reached a high of more than 144,000 at the peak of the oil boom in 1981.

There is at least one other sector that will feel a major impact from the projected $2 decline in oil prices — state and local government employment. A large portion of the state budget is derived from severance taxes, royalties, rentals, and bonuses. It is estimated that every $1 decline in oil prices reduces state revenue collections by $45 million to $50 million per year. The recent round of price cuts has already led the Governor to impose a state government hiring freeze. LEM projections are that state government employment — which has been declining since 1983 — will decline even further next year and will grow only slightly (0.2 percent) in 1987.

Note that local government employment, which has recently been a major source of employment growth for the state, is projected to remain flat over the next two years. The change is based on four developments. First, the financial problems of the state government will lead to less *state revenue sharing* with local governments. Secondly, *federal revenue sharing* with local governments is scheduled to be phased out next year. To give some idea of what this means, the Baton Rouge city/parish government will lose over $4 million (out of a $124 million budget) from this action alone. Thirdly, effective October 1, 1985, local governments must begin to pay the federal *minimum wage* or more to all their employees. This court ruling will force many local governments to lay off workers they can no longer afford to hire at that wage rate. Finally, some local governments are *privitizing* many of their services — such as garbage collection in Baton Rouge — in order to save dollars in an already strapped budget. The employees in these privitized industries will now show up in the other sectors listed in Table 2.

LEM is projecting another reversal in recent trends that is more positive in nature. Note in Table 2 that employment in "Chemicals and Allied Products," which has been declining from a peak of over 34,000 in 1981, is expected to begin to grow again. Two factors are responsible for this more optimistic trend. First is the expected reappearance of an export market for Louisiana's chemicals as the dollar weakens in value and our chemicals become more affordable to foreign buyers. Secondly, a stronger national economy in 1986 and 1987 will also improve the demand for chemical products.

In the past few years, there are two sectors that have continued to enjoy employment growth despite what has been happening in the state's basic industries. Those sectors are "Retail Trade" and "Services." Almost 40% of Louisiana non-agricultural wage and salary employment is in these two sectors. According to LEM projections, retail trade will continue to be a major source of employment growth through 1987. Some slowdown is forecast in the service sectors from past trends, but still, more than 7,000 jobs should be generated here over the next two years.

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TABLE 2
Louisiana Non-agricultural Wage and Salary Employment by Industrial Sector
(in thousands)

	Actual			Projected		Average Annual Growth Rates			
Sector	**1983[a]**	**1984[a]**	**1985[b]**	**1986**	**1987**	**1984**	**1985**	**1986**	**1987**
Mining	80.7	81.1	78.5	**75.2**	**75.3**	0.5%	-3.2%	**-4.2%**	**0.1%**
Oil & Gas Extraction	77.5	78.0	75.3	**72.0**	**72.0**	0.6%	-3.5%	**-4.4%**	**0.0%**
Non-metallic Materials	3.2	3.1	3.2	**3.2**	**3.3**	-3.1%	3.2%	**0.0%**	**3.1%**
Construction	115.2	118.8	113.0	**117.6**	**121.5**	3.1%	-4.9%	**4.1%**	**3.3%**
Manufacturing	180.1	181.9	175.1	**177.7**	**181.5**	1.0%	-3.7%	**1.5%**	**2.1%**
Durable Goods	79.9	83.1	81.0	**82.3**	**84.3**	4.0%	-2.5%	**1.6%**	**2.4%**
Lumber & Wood	13.1	13.5	12.7	**12.7**	**12.2**	3.1%	-5.9%	**0.0%**	**-3.9%**
Furniture & Fixtures	0.8	0.8	1.0	**1.0**	**1.0**	0.0%	25.0%	**0.0%**	**0.0%**
Stone, Clay & Glass	7.7	8.1	7.8	**8.1**	**8.3**	5.2%	-3.7%	**3.8%**	**2.5%**
Primary Metals	3.7	3.6	4.0	**3.7**	**3.9**	-2.7%	11.1%	**-7.5%**	**5.4%**
Fabricated Metals	13.4	12.9	12.3	**12.3**	**12.4**	-3.7%	-4.7%	**0.0%**	**0.8%**
Machinery, ex. Electrical	9.8	9.9	9.8	**10.0**	**10.4**	1.0%	-1.0%	**2.0%**	**4.0%**
Electric & Electronic Machinery	8.3	10.3	9.0	**9.6**	**10.3**	24.1%	-12.6%	**6.7%**	**7.3%**
Transportation Equipment	21.1	21.4	21.9	**22.4**	**23.3**	1.4%	2.3%	**2.3%**	**4.0%**
Other Durable Goods	2.1	2.5	2.5	**2.5**	**2.5**	19.0%	0.0%	**0.0%**	**0.0%**
Nondurable Goods	100.1	98.8	94.1	**95.4**	**97.2**	-1.3%	-4.8%	**1.4%**	**1.9%**
Food & Kindred Products	23.4	21.8	21.6	**20.7**	**20.6**	-6.8%	-0.9%	**-4.2%**	**-0.5%**
Apparel & Textiles	8.4	9.4	8.7	**9.0**	**9.2**	11.9%	-7.4%	**3.4%**	**2.2%**
Paper & Allied Products	11.5	11.7	10.8	**11.1**	**11.5**	1.7%	-7.7%	**2.8%**	**3.6%**
Printing & Publishing	9.8	10.0	10.1	**10.3**	**10.3**	2.0%	1.0%	**2.0%**	**0.0%**
Chemical & Allied Products	30.3	29.1	27.6	**28.6**	**29.6**	-4.0%	-5.2%	**3.6%**	**3.5%**
Petroleum & Coal Products	13.1	13.0	11.9	**12.0**	**12.2**	-0.8%	-8.5%	**0.8%**	**1.7%**
Other Nondurables	3.7	3.7	3.4	**3.7**	**3.8**	0.0%	-8.1%	**8.8%**	**2.7%**
Transportation & Public Utilities	118.2	118.1	114.2	**113.2**	**114.0**	-0.1%	-3.3%	**-0.9%**	**0.7%**
Railroad Transportation	7.1	7.4	7.1	**6.9**	**7.1**	4.2%	-4.1%	**-2.8%**	**2.9%**
Transportation, ex. Railroads	69.1	68.3	65.9	**64.5**	**64.3**	-1.2%	-3.5%	**-2.1%**	**-0.3%**
Communications & Public Utilities	42.0	42.4	41.2	**41.8**	**42.6**	1.0%	-2.8%	**1.5%**	**1.9%**
Wholesale & Retail Trade	369.4	380.9	381.6	**389.3**	**396.9**	3.1%	0.2%	**2.0%**	**2.0%**
Wholesale Trade	94.3	94.5	94.5	**94.9**	**95.4**	0.2%	0.0%	**0.4%**	**0.5%**
Retail Trade	275.1	286.4	287.1	**294.4**	**301.5**	4.1%	0.2%	**2.5%**	**2.4%**
Gen. Merchandise, Apparel, Appliances	58.8	59.5	57.6	**59.5**	**60.6**	1.2%	-3.2%	**3.3%**	**1.8%**
Food Stores	50.6	52.7	55.6	**56.3**	**58.0**	4.2%	5.5%	**1.3%**	**3.0%**
Auto Dealers & Service Stations	30.9	32.2	32.9	**33.6**	**35.0**	4.2%	2.2%	**2.1%**	**4.2%**
Eating & Drinking Places	82.5	86.7	85.9	**87.9**	**89.6**	5.1%	-0.9%	**2.3%**	**2.2%**
Other Retail Trade	52.2	55.3	55.1	**57.1**	**58.1**	5.9%	-0.4%	**3.6%**	**1.8%**
Finance, Insurance, Real Estate	82.0	83.1	84.3	**85.0**	**86.5**	1.3%	1.4%	**0.8%**	**1.8%**
Banking	27.1	27.4	27.4	**27.7**	**28.1**	1.1%	0.0%	**1.1%**	**1.4%**
Services	304.6	312.1	320.0	**321.3**	**327.3**	2.5%	2.5%	**0.4%**	**1.9%**
Hotels & Other Lodging Places	21.3	22.5	21.3	**22.3**	**22.8**	5.6%	-5.3%	**4.7%**	**2.2%**
Other Services	283.4	289.6	298.7	**299.0**	**304.5**	2.2%	3.1%	**0.1%**	**1.8%**
Government	315.0	320.6	325.6	**324.6**	**325.3**	1.8%	1.6%	**-0.3%**	**0.2%**
Federal	34.0	34.4	35.7	**35.4**	**35.8**	1.2%	3.8%	**-0.8%**	**1.1%**
State & Local	281.0	286.2	289.9	**289.2**	**289.5**	1.9%	1.3%	**-0.2%**	**0.1%**
State	101.9	101.5	98.9	**98.2**	**98.5**	-0.4%	-2.6%	**-0.7%**	**0.3%**
Local	179.1	184.7	191.0	**191.0**	**191.0**	3.1%	3.4%	**0.0%**	**0.0%**
TOTAL	1565.1	1596.7	1592.3	**1603.9**	**1628.3**	2.0%	-0.3%	**0.7%**	**1.5%**

a - Louisiana Department of Employment Security. Data are annual averages as of March 1985. Totals may not equal sum of parts because of rounding errors.

b - Labor Market Information, Louisiana Department of Employment Security, September 1985 data.

STATE INCOME AND POPULATION TRENDS

Table 3 contains historical and projected data on Louisiana income and population. This table differs from the employment information in Table 2 in one important respect. Because of data lags, income and population data for 1985 must be estimated by LEM; hence, projections for *three* years are given in Table 3.

Information about future income trends is very important for several reasons. First, of course, is that changes in personal income are a measure of one's economic well-being. Secondly, sales by retail and service establishments, in particular, are tied to income growth in an area. Thirdly, a large portion of state and local government revenues are dependent on sales tax collections, and these collections are closely tied to personal income growth.

As the top row of Table 3 demonstrates, Louisiana's personal income growth rate is projected to have fallen this year by one third (4.2 percent) compared to 1984 (6.3 percent). This deviation from the previous year's growth rate has wreaked havoc with several local government budgets. The state government was already facing fiscal difficulties due to severance tax drops; the sluggish growth rate has exacerbated this problem. Because the state economy is expected to begin a modest recovery in 1986 and 1987, LEM projections are for a somewhat improved personal income growth in 1986 (5.6 percent) and 1987 (6.7 percent).

Growth in personal income does not always mean that a person is economically better off. Large increases in prices can so offset the income growth that the purchasing power of one's income actually declines. In row 2 of Table 3, the personal income projections have been adjusted for expected changes in inflation (see Table 1) over the next two years. Note that much of the projected growth in personal income is offset by inflation, so that *real* personal income grew only 0.6 percent this year; however, it should grow almost three times faster next year and even faster in 1987 as the state's economy recovers.

Population growth figures are also given in Table 3. For the first time in several years the state experienced a net *out-migration* of persons from Louisiana which offset somewhat the natural growth in Louisiana's population. Such out-migration is common from an area experiencing economic difficulty. Louisiana's distinction of having the second highest unemployment rate in the nation has resulted in state population growth of one-half of one percent or less in 1984 and 1985. The economic recovery projected for 1986 and 1987 should slow this out-migration and result in a slight increase in the state's population growth rate in those years.

Finally, perhaps the best measure of the economic well-being of a state's citizens is their per capita income or dollars received per person. Note that Table 3 reveals that Louisiana's per capita income is presently about $11,215. Despite the state's economic difficulties since 1981, our per capita income has risen from a level of $9,517 in that year. However, per capita income in other states has grown even faster. In 1981 Louisiana ranked 31st among the 48 states in per capita income. It now ranks 38th.

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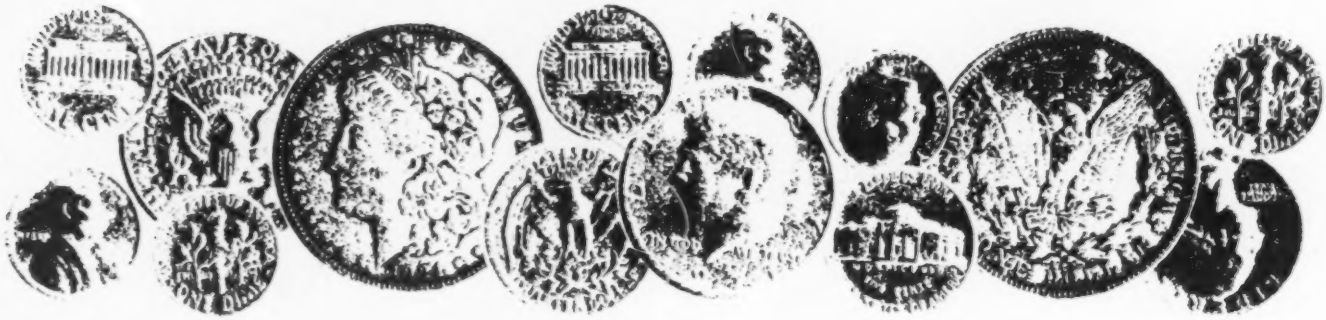
TABLE 3
Louisiana Personal Income, Population and Per Capita Income

	Actual[a]		Projected			Average Annual Growth Rates			
Category	**1983**	**1984**	**1985**	**1986**	**1987**	**1984**	**1985**	**1986**	**1987**
Personal Income (billions)	$45.4	$48.2	**$50.3**	**$53.1**	**$56.6**	6.3%	4.2%	**5.6%**	**6.7%**
Real Personal Income (billions of 1972 dollars)	$21.1	$21.6	**$21.7**	**$22.1**	**$22.6**	2.5%	0.6%	**1.9%**	**2.2%**
Population (millions)	4.44	4.46	**4.48**	**4.51**	**4.56**	0.5%	0.4%	**0.7%**	**1.0%**
Per Capita Income	$10,218	$10,810	**$11,215**	**$11,757**	**$12,425**	5.8%	3.7%	**4.8%**	**5.7%**
Real Per Capita Income (1972 dollars)	$4,746	$4,839	**$4,845**	**$4,899**	**$4,958**	2.0%	0.1%	**1.1%**	**1.2%**

a - Regional Economic Information Service, Bureau of Economic Analysis, U.S. Department of Commerce

THE FINANCIAL MARKETS IN LOUISIANA



The activities of the banks and thrifts are primarily determined by the level of personal income and the actions of the Federal Reserve Board (Fed). The level of both demand and time deposits depends primarily upon how much money people are earning, the level of the money supply as supported by the Fed, and interest rates. Actual and projected values for selected bank and thrift variables are given in Table 4.

Note that the growth of deposits in the banks and especially in the thrift institutions was significantly larger in 1984 (see Table 4) than the growth in personal income shown earlier in Table 3. There were two primary reasons for the large growth in thrift deposits. First, deregulation allowed the thrifts to pay competitive interest rates, which has attracted funds away from money market accounts and banks. Secondly, high interest rates have forced individuals and businesses to manage their cash efficiently and save the money in interest-bearing accounts.

The growth in bank and thrift deposits in 1985 and 1986 is again projected to be higher than the growth in personal income. This is primarily because the growth in money supply in the United States is expected to be high compared with the past few years. The growth in credit availability will therefore allow for a higher growth in bank and thrift deposits. The Fed is expected to restrain the growth of money supply in 1987, but financial deposits in Louisiana are projected to grow faster than the personal income since higher interest rates, together with continuing economic growth, are expected to promote banking activities.

It should be noted that bank loan growth is expected to be much more modest in 1985 and 1986 than in 1984. Loan volume tends to weaken when an economy is performing poorly. Since financial institutions tend to invest new deposits in either loans or securities, the weak loan demand is resulting in an increase in security holdings by banks.

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TABLE 4
Louisiana Financial Data
(millions of dollars)

	Actual		Projected			Average Annual Growth Rates			
Sector	**1983[a]**	**1984[a]**	**1985**	**1986**	**1987**	**1984**	**1985**	**1986**	**1987**
Commercial Banks									
Total Deposits	27,816	29,889	**31,928**	**34,253**	**36,975**	7.5%	6.8%	**7.3%**	**7.9%**
Total Assets	33,021	35,275	**37,083**	**39,408**	**42,244**	6.8%	5.1%	**6.3%**	**7.2%**
Total Loans	17,250	19,125	**19,998**	**21,183**	**22,662**	10.9%	4.6%	**5.9%**	**7.0%**
Securities	9,493	9,348	**9,894**	**10,556**	**11,341**	-1.5%	5.8%	**6.7%**	**7.4%**
Savings and Loan Assoc.									
Savings	10,696	12,251	**13,581**	**15,027**	**16,583**	14.5%	10.9%	**10.6%**	**10.4%**
Total Assets	12,052	14,286	**15,695**	**17,341**	**19,617**	18.5%	9.9%	**10.5%**	**9.2%**

a - FDIC, Bank Operating Statistics, FHLB Board, Combined Financial Statistics.

THE ENERGY SECTOR

The energy sector of LEM projects energy consumption and production in the state. Energy consumption primarily depends on real income and the price of energy. Real income projections were shown previously in Table 3. The trend of the price of electricity and natural gas is based on Wharton's econometric projections and independent information obtained from utility companies in Louisiana. Expected price increases for electricity and natural gas are shown in Table 5. The price of electricity to the residential and commercial consumers of some utility companies increased approximately 25 percent in 1985, while the price of electricity for industrial users increased 48 percent.

Electricity consumption increased significantly in 1984, as illustrated in Table 6, due to relatively stable prices and a growing economy. However, total electricity consumption is projected to decline 4 percent in 1985. The reduced consumption of electricity is primarily due to the increase in the price and a sluggish economy. Another hefty increase in electricity prices projected for 1986 is expected to impede consumption for that year. Consumption is expected to rebound moderately in 1987.

Electricity demand is very uncertain over the next two to five years given the nature of rate increases requested by major Louisiana utilities to support the nuclear plants that are coming on line and the reaction to any rate increases by industrial consumers. Rate shocks are not easily assimilated into any type of economic model.

TABLE 5
Energy Price Projections (Rate of Growth)

Prices	1984[a]	1985	1986	1987
Electricity	1.1%[a]	16.3%	**10%**	**6%**
Natural Gas	3.0[b]	-1.0%	**-0-**	**1.5%**

a - Actual change in average price b - Estimated change in average price

Natural gas prices rose in nominal terms, but fell in real terms. The falling real price of natural gas together with the growing economy in 1984 stimulated natural gas consumption during the year. A decline in demand by the manufacturing sectors and the utilities is restraining the consumption of natural gas by commercial and industrial users in 1985. Residential consumption in 1985 is estimated to grow moderately. Natural gas consumption should increase during the next two years as the economy improves and as the real price of natural gas is expected to decline through 1987.

Projections for the state's oil and gas production are also presented. The data for 1984 indicate that the industry showed signs of recovery from the downturn of 1983. Oil and gas extraction was buoyed by the 18-month period of stable oil prices and by a growing demand for oil throughout the United States. The real price of oil and gas is now expected to decline through 1987. Consequently, the number of active rigs within the territorial boundaries of Louisiana is projected to decline moderately throughout the forecast period.

Production of oil and gas depends on the number of producing wells which, in turn, depends on the number of active rigs which have been drilled in the past. In other words, a change in rig activity in one year leads to a corresponding change in the number of producing wells one to two years later, which, in turn, leads to a change in production of oil and gas. On the other hand, natural gas and oil production in Louisiana may respond positively to any fears of a tax increase in the near future.

Since a decline in the price of oil and gas is expected to cause a decline in rig activity, it follows that oil and natural gas production will decline during the next few years. The data show that the decline in the output of oil and natural gas will moderate in 1987 as the price of oil and natural gas falls in real terms.

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TABLE 6
Louisiana Energy Consumption and Production

	Actual		Projected			Average Annual Growth Rates			
Sector	**1983**	**1984**	**1985**	**1986**	**1987**	**1984**	**1985**	**1986**	**1987**
Energy Consumption									
Electricity[a]									
Residential	18,234	19,015	**18,324**	**18,343**	**18,854**	4.3%	-3.6%	**0.1%**	**2.8%**
Commercial & Industrial	35,288	37,943	**36,294**	**36,553**	**37,902**	7.5%	-4.3%	**0.7%**	**3.7%**
Natural Gas[b]									
Residential	68,304	70,392[c]	**73,902**	**77,763**	**81,743**	3.1%	5.0%	**5.3%**	**5.1%**
Commercial	34,906	35,273[c]	**35,362**	**35,832**	**36,332**	1.1%	0.3%	**1.3%**	**1.4%**
Industrial	986,899	1,055,982[c]	**1,057,038**	**1,097,205**	**1,158,649**	7.1%	0.1%	**3.8%**	**5.6%**
Energy Supply									
Natural Gas Production[d]	2,004	2,064	**1,976**	**1,934**	**1,890**	3.0%	-4.3%	**-2.1%**	**-2.3%**
Oil & Condensate Production[e]	181,351	188,044	**186,000**	**178,000**	**175,000**	3.7%	-1.1%	**-4.3%**	**-1.7%**
Active Rigs (monthly average)	223	258	**249**	**238**	**235**	15.7%	-3.5%	**-4.4%**	**-1.3%**

a - Millions of kilowatt hours b - Millions of cubic feet c - Estimated d - Billions of cubic feet e - Thousands of barrels

METROPOLITAN AREAS

Seven of the major metropolitan statistical areas (MSAs) within the state of Louisiana — Alexandria, Baton Rouge, Lafayette, Lake Charles, Monroe, New Orleans, and Shreveport — account for over 65 percent of the state's employment. Needless to say, the overall outlook for the state's economy depends heavily on what happens in these regions. In Table 7, total non-agricultural wage and salary employment is shown by the major metropolitan areas. Actual employment for 1983, 1984, and September 1985 is presented so that readers can view recent trends. Projected employment for 1986 and 1987 and employment growth rates for each year are also presented.

Growth in employment in 1985 in six of the seven regions was lower than their 1984 growth rate. The only exception was Monroe. Three of the metropolitan areas — Lafayette, Lake Charles, and New Orleans — experienced an absolute decline in employment.

The 1986 projections suggest a very lethargic growth in employment throughout Louisiana. Employment growth is less than one percent in all regions except Alexandria and Monroe. Even in these cities, the growth rates are somewhat misleading because the base employment is relatively small; thus, minor increases show up as major percentage changes. Employment growth in 1987 is projected to improve to moderate rates of expansion ranging from 1.1 percent in New Orleans to 2.3 percent in Baton Rouge.

Regional growth is based on

TABLE 7
Total Non-agricultural Wage and Salary Employment
Louisiana Metropolitan Areas

	Actual			Projected		Average Annual Growth Rates			
Sector	1983[a]	1984[a]	1985[b]	1986	1987	1984	1985	1986	1987
			(Sept.)						
Alexandria	43.3	44.7	45.6	**46.5**	**47.5**	3.2%	2.5%	**2.0%**	**2.2%**
Baton Rouge	205.2	214.0	220.0	**220.4**	**225.4**	4.3%	2.8%	**0.2%**	**2.3%**
Lafayette	97.2	98.0	95.8	**96.2**	**97.7**	0.8%	-2.2%	**0.4%**	**1.6%**
Lake Charles	61.6	60.2	58.3	**58.3**	**59.2**	-2.3%	-3.2%	**0.0%**	**1.5%**
Monroe	52.7	54.0	56.3	**56.5**	**57.5**	2.5%	4.2%	**0.3%**	**1.8%**
New Orleans	533.1	544.3	529.1	**531.5**	**537.4**	2.1%	-2.8%	**0.5%**	**1.1%**
Shreveport	135.1	142.2	143.0	**143.5**	**145.6**	5.3%	0.6%	**0.3%**	**1.5%**

a - Louisiana Department of Employment Security. Data are annual averages as of March 1985. Totals may not equal sum of parts because of rounding errors.

b - Labor Market Information, Louisiana Department of Employment Security, September 1985 data.

TABLE 8
Composition of Employment in Major Metropolitan Areas in Louisiana
Percent of Total Non-agricultural Employment
1985

Metropolitan Area	Contract Construction	Manufacturing	Mining	Transportation, Public Utilities, and Communications	Wholesale and Retail Trade	Finance, Insurance, and Real Estate	Services	Gov't.
Alexandria	6.8%	7.9%	—	5.0%	25.0%	5.5%	21.9%	27.9%
Baton Rouge	11.5%	9.4%	0.5%	4.9%	24.0%	6.1%	18.4%	25.3%
Lafayette	5.9%	5.8%	16.3%	7.4%	26.5%	4.2%	20.1%	13.6%
Lake Charles	6.0%	16.2%	3.4%	7.7%	24.7%	4.6%	18.5%	18.7%
Monroe	5.9%	12.5%	1.2%	4.8%	30.5%	7.7%	18.6%	18.6%
New Orleans	5.9%	8.8%	3.7%	8.4%	26.5%	6.0%	24.2%	16.5%
Shreveport	6.9%	13.9%	3.1%	5.5%	24.7%	5.5%	22.5%	17.8%

general economic conditions, the national recovery, energy markets, the value of the dollar, and other factors general to all regions. Differential growth rates among regions do occur, however, because of differences in the industrial base among the regions and other region-specific factors.

In Table 8, the industrial structures within the various regions are illustrated. Note that Baton Rouge depends more on construction and government than the other metropolitan areas, while Lafayette depends more on oil and gas activity. Lake Charles, Monroe, and Shreveport have more of a manufacturing base than the remainder of the state, although Alexandria, Baton Rouge, and New Orleans have significant manufacturing sectors. New Orleans dominates the state in terms of service employment.

For the reader who is interested in detailed employment data across MSAs, Tables A-1 through A-7 in the Appendix contain non-agricultural wage and salary employment by broad industrial sector. Actual employment for 1983, 1984, and 1985 is given, as well as projected employment for 1986 and 1987.

Growth throughout these MSAs, and throughout the state, is projected to be sluggish in 1985 and to increase only modestly in 1986. No industrial sector is expected to suddenly ignite an economic expansion, and no metropolitan area is projected to take off and leave other regions behind.

The non-agricultural base industries — mining, manufacturing, transportation, communication, and utilities — in the MSAs are projected to experience a reduction in employment in 1985. Across these cities, it is projected that there will be 1,700 fewer jobs in manufacturing; 1,200 fewer jobs in transportation, communications, and utilities; and 2,000 fewer jobs in mining in 1986 compared to 1985. According to LEM, 1987 will be somewhat better with 1,400 more jobs in manufacturing; 200 additional jobs in transportation, communications, and utilities; and 100 more jobs in mining in these seven cities.

Employment growth in 1986 will come from the support industries — wholesale and retail trade; finance insurance, and real estate; and personal and business services. This is true in all metropolitan areas.

Income growth by metropolitan areas is presented in Table 9. Income growth reflects real growth in employment and productivity, proprietor's earnings, social security, welfare payments, and the impact of inflation. In general, personal income growth is projected to be in the 5 to 6 percent range in 1986 and in the 6 to 7 percent range in 1987. Variation among metropolitan areas is very slight. ≡LSU

TABLE 9
Metropolitan Area Personal Income
(millions of dollars)

Sector	Actual		Projected			Average Annual Growth Rates			
	1983[a]	1984[b]	1985	1986	1987	1984	1985	1986	1987
Alexandria	1,179.4	1,254.5	**1,303.1**	**1,373.4**	**1,461.3**	6.4%	3.9%	**5.4%**	**6.4%**
Baton Rouge	5,976.8	6,372.5	**6,657.5**	**7,041.0**	**7,527.5**	6.6%	4.5%	**5.8%**	**6.9%**
Lafayette	2,658.6	2,860.6	**2,980.0**	**3,146.9**	**3,367.2**	7.6%	4.2%	**5.6%**	**7.0%**
Lake Charles	1,889.0	1,982.9	**2,036.1**	**2,142.1**	**2,288.3**	5.0%	2.7%	**5.2%**	**6.8%**
Monroe	1,324.8	1,414.8	**1,472.5**	**1,553.5**	**1,654.4**	6.8%	4.1%	**5.5%**	**6.5%**
New Orleans	15,402.4	16,341.9	**16,991.2**	**17,908.7**	**19,072.8**	6.1%	4.0%	**5.4%**	**6.5%**
Shreveport	3,859.0	4,098.2	**4,261.0**	**4,499.7**	**4,796.6**	6.2%	4.0%	**5.6%**	**6.6%**

a - Regional Economic Information Service, Bureau of Economic Analysis, U.S. Department of Commerce.
b - Data for 1984 are estimates.

APPENDIX

TABLE A-1
Selected Non-agricultural Wage and Salary Employment
Alexandria
(thousands)

Sector	Actual			Projected	
	1983[a]	1984[a]	1985[b]	1986	1987
			(Sept.)		
Contract Construction	2.6	2.9	3.1	**3.2**	**3.3**
Manufacturing	3.4	3.4	3.6	**3.7**	**3.8**
Transportation, Communications, and Public Utilities	2.1	2.2	2.3	**2.3**	**2.4**
Wholesale and Retail Trade	10.4	11.0	11.4	**11.7**	**12.0**
Finance, Insurance, and Real Estate	2.4	2.5	2.5	**2.6**	**2.7**
Services and Mining	9.8	10.0	10.0	**10.2**	**10.4**
Government	12.7	12.7	12.7	**12.8**	**12.9**
TOTAL	43.3	44.7	45.6	**46.5**	**47.5**

a - Louisiana Department of Employment Security. Data are annual averages as of March 1985. Totals may not equal sum of parts because of rounding errors.
b - Labor Market Information, Louisiana Department of Employment Security, September 1985 data.

TABLE A-2
Selected Non-agricultural Wage and Salary Employment
Baton Rouge
(thousands)

Sector	Actual			Projected	
	1983[a]	1984[a]	1985[b]	1986	1987
			(Sept.)		
Mining	1.0	1.1	1.3	**1.2**	**1.2**
Contract Construction	20.5	22.3	25.2	**25.0**	**26.0**
Manufacturing	22.2	21.6	20.6	**20.8**	**20.9**
Transportation, Communications, and Public Utilities	10.2	10.4	10.7	**10.6**	**10.8**
Wholesale and Retail Trade	48.5	52.2	52.7	**54.8**	**56.7**
Finance, Insurance, and Real Estate	12.3	13.1	13.5	**13.7**	**14.0**
Services	38.4	39.6	40.4	**41.2**	**42.2**
Government	52.2	53.8	55.6	**53.3**	**53.6**
TOTAL	205.2	214.0	220.0	**220.4**	**225.4**

a - Louisiana Department of Employment Security. Data are annual averages as of March 1985. Totals may not equal sum of parts because of rounding errors.
b - Labor Market Information, Louisiana Department of Employment Security, September 1985 data.

TABLE A-3
Selected Non-agricultural Wage and Salary Employment
Lafayette
(thousands)

Sector	Actual			Projected	
	1983[a]	1984[a]	1985[b]	1986	1987
			(Sept.)		
Mining	16.9	17.0	15.6	14.9	14.9
Contract Construction	5.9	5.4	5.7	5.7	5.9
Manufacturing	5.9	6.1	5.6	5.7	5.7
Transportation, Communications, and Public Utilities	7.1	7.1	7.1	6.9	6.8
Wholesale and Retail Trade	25.6	26.0	25.4	26.1	26.7
Finance, Insurance, and Real Estate	4.1	4.2	4.0	4.2	4.4
Services	18.8	19.4	19.3	19.7	20.2
Government	13.0	12.9	13.1	13.0	13.0
TOTAL	97.2	98.0	95.8	96.2	98.7

a - Louisiana Department of Employment Security. Data are annual averages as of March 1985. Totals may not equal sum of parts because of rounding errors.
b - Labor Market Information, Louisiana Department of Employment Security, September 1985 data.

TABLE A-4
Selected Non-agricultural Wage and Salary Employment
Lake Charles
(thousands)

Sector	Actual			Projected	
	1983[a]	1984[a]	1985[b]	1986	1987
			(Sept.)		
Mining	2.3	2.1	2.0	1.9	1.9
Contract Construction	6.3	4.2	3.5	3.4	3.6
Manufacturing	9.9	9.8	9.5	9.4	9.6
Transportation, Communications, and Public Utilities	4.4	4.4	4.5	4.4	4.3
Wholesale and Retail Trade	14.4	14.8	14.4	14.8	14.9
Finance, Insurance, and Real Estate	2.8	2.8	2.7	2.7	2.8
Services	11.0	11.1	10.8	11.0	11.2
Government	10.6	11.0	10.9	10.9	10.9
TOTAL	61.6	60.2	58.3	58.3	59.2

a - Louisiana Department of Employment Security. Data are annual averages as of March 1985. Totals may not equal sum of parts because of rounding errors.
b - Labor Market Information, Louisiana Department of Employment Security, September 1985 data.

TABLE A-5
Selected Non-agricultural Wage and Salary Employment
Monroe
(thousands)

Sector	Actual			Projected	
	1983[a]	1984[a]	1985[b]	1986	1987
			(Sept.)		
Mining	0.6	0.7	0.7	0.6	0.6
Contract Construction	3.1	3.1	3.3	3.4	3.5
Manufacturing	7.2	7.2	7.0	7.1	7.3
Transportation, Communications, and Public Utilities	2.7	2.7	2.7	2.7	2.7
Wholesale and Retail Trade	14.2	15.3	17.0	17.1	17.3
Finance, Insurance, and Real Estate	3.9	4.0	4.3	4.4	4.5
Services	10.4	10.6	10.4	10.8	11.1
Government	10.7	10.5	10.9	10.4	10.5
TOTAL	52.7	54.0	56.3	56.5	57.5

a - Louisiana Department of Employment Security. Data are annual averages as of March 1985. Totals may not equal sum of parts because of rounding errors.
b - Labor Market Information, Louisiana Department of Employment Security, September 1985 data.

TABLE A-6
Selected Non-agricultural Wage and Salary Employment
New Orleans
(thousands)

Sector	Actual			Projected	
	1983[a]	1984[a]	1985[b]	1986	1987
			(Sept.)		
Mining	19.0	19.8	19.7	18.8	18.8
Contract Construction	35.3	35.9	31.2	32.3	32.9
Manufacturing	49.5	47.9	46.7	45.5	45.7
Transportation, Communications, and Public Utilities	49.3	47.4	44.7	43.6	43.6
Wholesale and Retail Trade	133.2	141.2	140.1	141.8	144.0
Finance, Insurance, and Real Estate	32.5	32.8	31.5	32.0	32.6
Services	126.6	130.5	128.0	129.3	131.3
Government	87.7	88.8	87.2	86.2	86.5
TOTAL	533.1	544.3	529.1	531.5	537.4

a - Louisiana Department of Employment Security. Data are annual averages as of March 1985. Totals may not equal sum of parts because of rounding errors.
b - Labor Market Information, Louisiana Department of Employment Security, September 1985 data.

TABLE A-7
Selected Non-agricultural Wage and Salary Employment
Shreveport
(thousands)

Sector	Actual			Projected	
	1983[a]	1984[a]	1985[b]	1986	1987
			(Sept.)		
Mining	5.4	5.3	4.5	**4.4**	**4.2**
Contract Construction	8.1	8.8	9.9	**10.0**	**10.2**
Manufacturing	19.7	22.4	19.9	**19.2**	**19.6**
Transportation, Communications, and Public Utilities	8.8	8.8	7.9	**8.2**	**8.2**
Wholesale and Retail Trade	32.8	34.0	35.3	**36.1**	**36.7**
Finance, Insurance, and Real Estate	7.7	7.9	7.9	**8.0**	**8.2**
Services	29.0	30.5	32.2	**32.3**	**33.0**
Government	23.5	24.6	25.4	**25.3**	**25.5**
TOTAL	135.1	142.2	143.0	**143.5**	**145.6**

a - Louisiana Department of Employment Security. Data are annual averages as of March 1985. Totals may not equal sum of parts because of rounding errors.
b - Labor Market Information, Louisiana Department of Employment Security. September 1985 data.